



SMALL BUSINESS **STARTUP**

Choosing Your Legal Structure – *Sole Traders*

Once you decide to start a business, you need to choose what type of legal structure the business will have. The most common types are sole traders, limited companies and business partnerships. The structure you choose will define your legal responsibilities, including paperwork and registration requirements, taxes and personal liability. The following is an overview of how to become a sole trader.

Sole Trader Responsibilities

Sole traders are the easiest type of legal structures to set up. Being a sole trader, also known as being 'self-employed', means that you alone own the business and are the only one responsible for it. However, you may still take on staff and employees.

As a sole trader, you will be personally responsible for:

- Any debts and bills that the business incurs, including stock and equipment
- Keeping accurate financial records of sales and expenses
- Filing an annual Self-Assessment Tax Return
- Paying income tax and National Insurance

How to Set Up as a Sole Trader

When setting up as a sole trader, you need to properly name your business, get a National Insurance number and register for Self-Assessment with HM Revenue & Customs (HMRC).

1. Trade under your own name or create a business name.

If you don't trade under your own name, you will need to come up with a business name. This name cannot contain any terms such as 'Limited', 'Ltd',

Ease of Set Up

The majority of businesses in the United Kingdom are sole traders. This is because sole traders are the simplest business structure to set up and run. However, keep in mind that as a sole trader you will be personally liable for any business debts.

The content of this Small Business StartUp Guide is of general interest and is not intended to apply to specific circumstances. It does not purport to be a comprehensive analysis of all matters relevant to its subject matter. The content should not, therefore, be regarded as constituting legal advice and not be relied upon as such. In relation to any particular problem which they may have, readers are advised to seek specific advice. Further, the law may have changed since first publication and the reader is cautioned accordingly. Design © 2013 Zywave, Inc. All rights reserved.

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'public limited company' or 'LLP'. It also cannot contain any sensitive words or expressions (a list of sensitive words and expressions can be found at www.companieshouse.gov.uk), suggest involvement with the government or local authorities, or be too similar to a registered trademark or existing business in the same sector.

2. Have a National Insurance Number

Most people already have a National Insurance number; it is typically given automatically to a person before his or her 16th birthday. However, if you do not have one, you can call Jobcentre Plus at 0845 600 0643 to apply for one. You must prove that you have a right to work or study in the United Kingdom. This process may include an interview on why you need it and proof of identity.

3. Register for Self-Assessment with the HMRC.

You are required to register with the HMRC as soon as you can after starting your business. If you register later than 5 October in your business' second tax year, you may be charged a penalty. For example, if you started up as a sole trader during the 2013-2014 tax year, you must register before 5 October 2014. When registering, you will need your National Insurance number, personal contact information and business details, such as the business' address and the date the business started.

Once you register, you will get a Unique Taxpayer Reference (UTR) number and an online Government Gateway account which allows you to send in your annual tax return online. To register online, please visit <https://online.hmrc.gov.uk/registration/newbusiness>. If your business turnover is expected to be more than £79,000 a year, you must also register for VAT with the HMRC.

Other Types of Entities

If you prefer to not be personally responsible for business losses, debts and liabilities, you can also consider forming a limited company. Keep in mind that there are additional registration requirements and responsibilities.

A limited company is an organisation that is set up to run your business. It is considered a completely separate entity, thus limiting your own personal liability for business finances, unlike a sole trader.

For information on different types of legal structures, contact Crendon Insurance Brokers Ltd today.